

Message Text

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PAGE 01 AMMAN 00570 310707Z
ACTION H-02

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UNCLAS AMMAN 0570

FOR EB/IFD/ODF

E.O. 11652: M/A
TAGS: EFIN, EAID,
SUBJECT: SENATOR GRAVEL'S PAPER ON TAXATION FOR DEVELOPMENT
REF: STATE 4496

1. MISSION SHARES SENATOR GRAVEL'S CONCERN FOR AND INTEREST IN INCREASING TRANSFERS OF RESOURCES FROM DEVELOPED COUNTRIES TO LDC'S. HOWEVER, WE ALSO SEE NUMBER OF POSSIBLE PROBLEMS WITH PROPOSAL TO ACCOMPLISH THIS PURPOSE AS DESCRIBED IN HIS WORKING PAPER ON TAXATION FOR DEVELOPMENT ASSISTANCE. OUR COLLECTIVE OBSERVATIONS FOLLOW:

A) SENATOR GRAVEL STATES THAT "DEVELOPING COUNTRIES PERCEIVE THAT A GOOD PORTION OF (MNC INCOME) COMES FROM THEM." ALTHOUGH WE DO NOT HAVE RELEVANT STATISTICS HERE, WE STRONGLY SUSPECT THAT THIS IS MISCONCEPTION ON PART OF LDC'S. WE WOULD QUESTION WISDOM OF ANY USG PROGRAM BASED ON AND TENDING TO REINFORCE A BASIC MISCONCEPTION.

B) BASIS FOR DETERMINING AMOUNT OF ANNUAL TAXATION APPEARS TO US INEQUITABLE IN PRINCIPLE: I.E. TAX LIABILITY IS TO BE DETERMINED BY OVERALL PERFORMANCE OF THE US ECONOMY MEASURED BY GNP AND LEVEL OF CONGRESSIONAL APPROPRIATIONS FOR FOREIGN AID, NEITHER OF WHICH IS WITHIN CONTROL OF AMERICAN BASED MNC'S NOR RELATED TO THEIR OWN PERFORMANCE IN ANY WAY. IN ADDITION, ON THE BASIS OF COMPUTING MNC TAX LIABILITY, THEY WOULD NOT EVEN

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BE ABLE TO ESTIMATE RELIABLY THEIR LIKELY TAX LIABILITY IN ADVANCE.

C) IT IS NOT CLEAR WHETHER SENATOR GRAVEL WOULD BASE TAXATION OF MNC INCOME ON TOTAL TAXABLE INCOME BEFORE OR AFTER ACCOUNTING FOR FOREIGN TAXATION AND U.S. TAX DEFERRAL AND DISC BENEFITS. USING FIGURES PROVIDED IN GRAVEL PAPER ON PAGE 14 AND HIS TWO-PAGE SUMMARY, 1976 TAXATION WOULD REPRESENT 36 PERCENT OF

INCOME UNDER FORMER CRITERION (AS HE STATES) BUT SOME 75 PERCENT UNDER LATTER DEFINITION.

D) RELATED TO C) ABOVE, TRULY MULTINATIONAL CORPORATIONS ARE ABLE TO OPERATE EFFECTIVELY FROM A NUMBER OF COUNTRIES AND ARE LIKELY TO CHOOSE MOST HOSPITABLE ENVIRONMENT AVAILABLE. GRAVEL TAXATION PROPOSAL WOULD REDUCE HOSPITALITY OF U.S. AND WOULD PRESUMABLY INFLUENCE RELOCATION DECISIONS UNLESS ALL OTHERWISE LIKELY HOST COUNTREIS WERE WILLING TO ENACT ESSENTIALLY INDENTICAL OR EQUIVALENT LEGISLATION.

E) SENATOR WOULD RELY PRIMARILY ON MULTI-LATERAL INSTITUTIONS FOR ADMINISTRATION AND DISBURSEMENT OF FUNDS. YET HE WOULD ALSO HAVE TWO CHANGING UNILATERAL U.S. STANDARS FOR APPLICATION OF AID: A FORMULA FOR WEIGHING AID DISTRIBUTIONTO RECIPIENT COUNTIRES AND A CONGRESSIONAL DETERMINATION OF POTENTIAL AND ACTUAL RECIPIENTS' COMPLIANCE WITH STANDARDS OF HUMAN RIGHTS. EIGHOR OR BOTH CRITERIA MIGHT WELL BE UNCACCEPTABLE TO ADMINISTERING MULTI-LATERLA AGENCIES, OR AT A MINIMUM MIGHT REQUIRE SEPARATE PROGRAMMING OF OTHER ACTIVITIES OF THE MULTI-LATERAL AGENCIES.

2. IN GENERAL IT APPEARS TO US THAT GRAVEL PROPOSAL AS PRESENTED IN SUBJECT PAPER SEEKS TO ACHIEVE AN AIM WE WOULD SHARE, BUT PROPOSES MEANS TO DO SO FOUNDED ON POSSIBLE MISCONCEPTION, TO BE FUNDED IN MANNER THAT IS INEQUITABLE IN PRINCIPLE, AND WHICH WOULD INTEODUCE GREAT DIFFICULTIES, INCLUDING IN ADMINISTARATION. PICKERING

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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
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